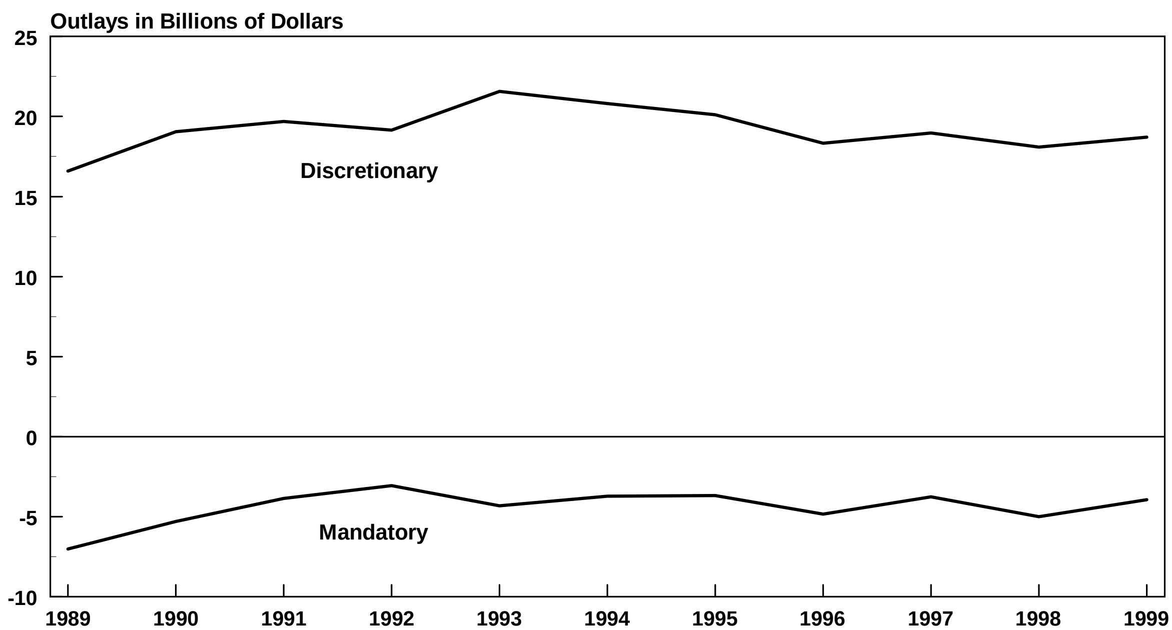
150

International Affairs

Budget function 150 covers all spending on international programs by various departments and agencies whose missions concern international affairs. The category includes spending by the Department of State to conduct foreign policy and exchange programs, funds controlled directly by the President to give other nations economic and military aid, and U.S. contributions to international organizations such as the United Nations, multilateral development banks, and the International Monetary Fund. Function 150 also includes financing for exports through the Export-Import Bank. CBO estimates that discretionary outlays for the function will total $18.7 billion in 1999; discretionary budget authority provided for international affairs this year is $39 billion. Repayments of loans and interest income in the Exchange Stabilization Fund account for the negative balances in mandatory spending for this function. Over the past 10 years, discretionary outlays for function 150 have declined from 1.5 percent of federal outlays to 1.1 percent.



150-01 ELIMINATE OVERSEAS BROADCASTING BY THE U.S. GOVERNMENT

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	155	196
2001	234	230
2002	385	360
2003	395	385
2004	397	390
2005	397	394
2006	397	395
2007	397	395
2008	397	395
2009	397	395
Cumulative		
2000-2004	1,566	1,561
2000-2009	3,551	3,535

SPENDING CATEGORY:

Discretionary

Several entities provide U.S. overseas broadcasting. Radio Free Europe (RFE) and Radio Liberty (RL) broadcast country-specific news to Eastern Europe and the former Soviet Union, respectively. The Voice of America (VOA) oversees radio broadcasts that provide news and U.S.-related information to audiences worldwide. The United States Information Agency (USIA) oversees television broadcasting services similar to VOA's radio broadcasts and also manages a broadcasting service to Cuba. In 1996, the Congress consolidated the appropriations for VOA, RFE/RL, and USIA's television and film service into the international broadcasting operations account. Funding for radio and television broadcasting to Cuba and for construction of broadcast facilities was provided in separate appropriations.

This option would eliminate VOA and RFE/RL and end broadcasting services to Cuba, all overseas construction of broadcast facilities, and U.S. overseas television broadcasting. Compared with the 1999 funding level, those cuts would save more than $3.5 billion over 10 years—$3.2 billion from terminating the international broadcasting operations account, $208 million from ending broadcasts to Cuba, and $98 million from terminating construction of broadcast facilities. (Those savings are net of the near-term costs of termination, such as severance pay for employees.)

Proponents of ending overseas broadcasting by the U.S. government claim that RFE/RL and VOA are Cold War relics that are no longer necessary. RFE and RL continue to broadcast to former Communist countries in Europe even though those countries now have ready access to world news. With the advent of satellite television broadcasting, most nations can receive news about the United States and the world from private broadcasters, such as the Cable News Network (CNN). Some proponents of termination also argue that the primary technology used by VOA and RFE/RL—shortwave radio—limits the audiences and thus the effectiveness of U.S. overseas broadcasting. Finally, proponents say, foreigners may distrust the accuracy of broadcasts sponsored by the U.S. government.

Critics of this option would argue that the current level of broadcasting should continue or even increase. The process of change in Eastern Europe and the former Soviet Union needs nurturing, they say, and U.S. broadcasting can help in that process. In addition, many countries in other parts of the world remain closed to outside information. Supporters of VOA and RFE/RL argue that shortwave radio is the best way to reach audiences in closed countries because very few people there own satellite dishes, which are needed to receive television broadcasts such as those of CNN. Moreover, they note, VOA and RFE/RL are broadcasting more programs over AM and FM frequencies. Supporters of U.S. government broadcasting also argue that it should be sharply increased to some countries, such as China and North Korea. Further, they maintain, television is a powerful communications tool, and private television networks cannot adequately communicate U.S. policy and viewpoints.

150-02 REDUCE ASSISTANCE TO ISRAEL AND EGYPT

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	220	183
2001	380	318
2002	540	463
2003	700	614
2004	860	769
2005	1,020	925
2006	1,180	1,083
2007	1,340	1,241
2008	1,500	1,400
2009	1,500	1,436
Cumulative		
2000-2004	2,700	2,347
2000-2009	9,240	8,433

SPENDING CATEGORY:

Discretionary

RELATED CBO PUBLICATIONS:

The Role of Foreign Aid in Development (Study), May 1997.

Enhancing U.S. Security Through Foreign Aid (Study), April 1994.

Limiting Conventional Arms Exports to the Middle East (Study), September 1992.

As part of the 1979 Camp David peace accords, the United States agreed to provide substantial amounts of aid to Israel and Egypt to promote economic, political, and military security. That aid, which totaled $5.1 billion for the two countries last year, is paid through the Economic Support Fund (ESF) and the Foreign Military Financing (FMF) program. Of that total, Israel received $3 billion ($1.2 billion in ESF payments and $1.8 billion from the FMF program), and Egypt received $2.1 billion ($815 million from the ESF and $1.3 billion from the FMF program). This year, U.S. aid to the two nations will total $5 billion ($100 million less than in 1998)—an amount that represents more than four-fifths of discretionary spending for U.S. security assistance and more than one-third of the foreign operations budget for 1999 (excluding appropriated funds for the International Monetary Fund).

In January 1998, Israel proposed phasing out its $1.2 billion a year in ESF payments while increasing its FMF assistance by $600 million a year. The conference report for the 1999 Foreign Operations Appropriations Act endorsed that proposal with a 10-year phase-in. As a result, it cut ESF aid to Israel by $120 million and increased FMF aid by $60 million. The conference report also reduced economic assistance to Egypt from $815 million in 1998 to $775 million in 1999—and proposed cutting it to $415 million by 2008—while keeping military aid constant.

This option would forgo the proposed increase in military funding for Israel (maintaining that aid at its 1998 level) while continuing to cut economic assistance to both Israel and Egypt each year through 2008. The reductions in Israeli aid would save $180 million in 2000, compared with this year's funding level, and a total of $2.1 billion over five years and almost $7.1 billion over 10 years. Adding in the cuts to Egyptian aid would bring total savings in outlays to $183 million in 2000, $2.3 billion over five years, and $8.4 billion over 10 years.

The conference report asserted that increased military assistance to Israel was necessary because "the [country's] security situation, particularly with respect to weapons of mass destruction, has worsened." But despite reports of weapons technology being transferred to Iran, critics could argue that Israel's security situation has improved. Iraq's arsenal of weapons of mass destruction has been reduced, though not eliminated, by U.N. inspections; Israel has concluded a peace treaty with Jordan; and peace talks with the Palestinians have made progress. In addition to those developments, Israel's per capita income (in excess of $17,000) approaches that of the United States' European allies, who have long been prodded by the Congress to assume greater responsibility for their own defense.

As for Egypt, some analysts say U.S. assistance to that country is not being spent wisely or efficiently. Critics note that high levels of appropriations have exceeded Egypt's ability to spend the funds, leading to the accumulation of large undisbursed balances, inefficient use of assistance, and delays in making the reforms needed to foster self-sustaining growth. Furthermore, many other countries and organizations contribute substantial amounts of money to Egypt, which could make reducing U.S. assistance more feasible.

150-03 ELIMINATE THE EXPORT-IMPORT BANK, OVERSEAS PRIVATE INVESTMENT CORPORATION, AND TRADE AND DEVELOPMENT AGENCY

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	850	94
2001	856	242
2002	866	394
2003	876	536
2004	881	655
2005	881	750
2006	881	799
2007	881	827
2008	881	840
2009	881	843
Cumulative		
2000-2004	4,329	1,921
2000-2009	8,734	5,980

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

350-02, 350-08, and 350-09

RELATED CBO PUBLICATIONS:

The Domestic Costs of Sanctions on Foreign Commerce (Study), March 1999.

The Role of Foreign Aid in Development (Study), May 1997.

The Export-Import Bank (Eximbank), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA) promote U.S. exports and overseas investment by providing a range of services to U.S. companies wishing to do business abroad. Eximbank offers subsidized direct loans, guarantees of private lending, and export credit insurance; OPIC provides investment financing and insurance against political risks; and TDA funds feasibility studies, orientation visits, training grants, and other forms of technical assistance. Appropriations in 1999 for Eximbank, OPIC, and TDA are $815 million, $85 million, and $44 million, respectively.

Those organizations are only three of the various U.S. government agencies (some of which are part of the Department of Agriculture) that promote trade and exports. Moreover, their impact on exports may be limited. According to the annual reports of OPIC, Eximbank, and TDA, those three agencies supported about 2 percent of total U.S. exports in 1995.

This option would eliminate TDA and the subsidy appropriations for Eximbank and OPIC. The latter two agencies could not make any new finance or insurance commitments but would continue to service their existing portfolios. Those changes would save $94 million in outlays in 2000, $1.9 billion through 2004, and almost $6 billion over 10 years compared with the 1999 funding level.

Supporters of promoting exports argue that those agencies play an important role in helping U.S. businesses, especially small businesses, understand and penetrate overseas markets. They level the playing field for U.S. exporters by offsetting the subsidies that foreign governments provide to their exporters, thereby creating jobs and promoting sales of U.S. goods. By encouraging U.S. investment in areas such as Russia and the states of the former Soviet Union, those agencies may also serve a foreign policy objective.

Critics dispute the claim that promoting exports creates U.S. jobs. They assert that by subsidizing exports, the government distorts business decisions that are best left to free markets. OPIC and Eximbank finance programs that have trouble raising funds on their own merit. Similarly, those agencies' insurance programs may encourage moral hazard—the practice of companies investing in riskier projects than they would if more of their own funds were at stake. Finally, critics argue, those agencies encourage highly risky projects in vulnerable areas. Although emerging countries like South Korea, Mexico, and Poland are important markets for U.S. exports, they can also be dangerous: firms operating there may face considerable political, currency, and business risks.

150-04 CEASE ADDITIONAL FUNDING OF MULTILATERAL DEVELOPMENT BANKS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	1,148	66
2001	1,293	497
2002	1,441	790
2003	1,441	983
2004	1,441	1,147
2005	1,441	1,237
2006	1,477	1,350
2007	1,477	1,415
2008	1,477	1,456
2009	1,477	1,466
Cumulative		
2000-2004	6,764	3,483
2000-2009	14,113	10,408

SPENDING CATEGORY:

Discretionary

Established to finance the reconstruction of Europe after World War II, the World Bank and its regional counterparts (the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development) are now important sources of financing for developing nations. Those multilateral development banks are owned by member countries, which purchase the banks' stock, promise to back their debts, or directly contribute funds—all of which enable the banks to make loans to developing nations on highly concessional terms.

Under this option, the United States would continue to be a member of the multilateral development banks but would not make new stock purchases or contributions. Ceasing to do so would save $66 million in outlays in 2000, $3.5 billion over the next five years, and $10.4 billion over 10 years compared with the 1999 funding level.

Critics claim that the multilateral banks are more interested in generating loans than in determining whether the loans are invested well. The banks' incentive systems, they argue, create a preoccupation with getting loans approved. After years of internal reforms, the World Bank still reports that between one-quarter and one-third of the projects that it funds are unsatisfactory at completion. Limiting U.S. participation in new lending might cause the banks to pay more attention to the success of their lending activities.

Some critics also claim that the banks' lending harms the economies of developing countries. Large amounts of aid can overvalue a recipient country's exchange rate, opponents say, thereby increasing the relative costs of its domestic products and reducing their competitiveness in world markets. In addition, a constant infusion of concessional lending can weaken financial discipline and depress domestic saving and private investment, which destroys the incentives that foster sound business practices. Besides economic harm, environmental groups charge that the large-scale projects funded by the banks too often damage the environment and marginalize indigenous peoples.

Supporters, by contrast, argue that the banks are the most effective instrument in promoting policy reform in developing nations and in countries undergoing the transformation to a free-market democracy. Supporters might also note that harmful effects on indigenous peoples, the environment, and the economy were common to all past development efforts, not just the banks' projects, and that the banks have adopted policies to reduce the adverse environmental and social impact of their projects. Furthermore, supporters argue, the poor performance of the banks' portfolios is exaggerated: development is a risky business, and if the banks were making only safe loans, they would not be serving their main function of taking risks that profit-oriented investors shun.

The banks' advocates also note that developing countries constitute the most rapidly expanding market for exports, and the financing that the banks provide is an important source of support in expanding U.S. exports to those countries. The banks promote U.S. interests around the world on a scale that the United States, acting alone, could not afford. If the United States stopped contributing to the banks, its ability to shape their policies would be weakened.